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Don'ts which will help

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"Don'ts" Which Will Help

"DON'T trust any one with your money, if you would not have it stolen," might be a very simple and effective formula for theft prevention if it would work. Modern business is conducted on a different basis; hence, other "don'ts" must be considered.

Generalizations have their value in eliminating detail. They convey ideas much more quickly than a mass of undigested information. But in the application of principles, details will not be thrust aside.

The principles of embezzlement prevention have been stated again and again. They have been presented in general terms and illustrated by cases. Seldom has their application been discussed concretely, having in mind the inter-related bearing of organization, function, accounting system, and control.

The purpose of this article is to present and discuss some of the simple precautions of a preventive character with a view to helping business men to understand more definitely than in the past what are some of the chief pitfalls and how they may be avoided.

As a cardinal principle no one person should have financial matters entirely in his grasp, much less control. Furthermore, the controlling records should be divorced from the person who handles the funds.

In the usual sequence of business transactions within a given concern, the purchase of goods follows soon after setting up the organization, but the sale of goods produces the first cash received after the initial cash provision for current purposes. Thus, one typical situation perhaps may be visualized best by viewing the work of a theoretical employe who performs all the duties of cashier and bookkeeper, considering the transactions, beginning with sales, as they bear on the question of cash irregularities. This situation is by no means rare, particularly in smaller concerns. Fortunately, however, such situations probably are decreasing rather than increasing in number.

For purposes of illustration, let it be assumed that the "custodian" personally performs the following duties: prepares sales invoices and keeps the sales records; receives all incoming cash (currency and checks) direct; enters receipts in the cash book; passes on questions of cash discounts and similar allowances; keeps the customers' ledger; deposits in bank, checks and such currency as is not needed for currency disbursements; makes disbursements in currency and cashes checks, recashing such checks at the bank; prepares disbursement checks but does not sign them (the latter an absurd precaution under the circumstances); enters disbursement checks in the cash book; keeps the purchase invoice register; foots and balances cash book; reconciles the bank balance; keeps the general ledger.

Almost every form of cash irregularity known would be possible under these conditions. Abstraction, interception of receipts, and improper withdrawal of funds on deposit might be perpetrated with maximum possibilities of success in attempted concealment. There is a mixed cash condition, that is to say, no line of demarcation between cash in hand and cash on deposit. Checks and currency may be interchanged without any control over the identity of either. Altogether the situation is alive with opportunity for one who is disposed to be irregular.

The remedy for a situation of this kind may be found in applying certain fundamental rules of which many well-organized business establishments have long since taken advantage. The first of these is divorcing from the cashier all records except the cash book. The second is establishing a cash fund of fixed amount out of which to make small disbursements, using checks for disbursements whenever possible. These are the two most important changes needed to correct a dangerous situation. Others, approaching the ideal, are dependent upon what the circumstances in a given case will permit.

In considering correction, attention of course must be given to practicality. To achieve a situation absolutely ideal might require so much expense as to render the scheme impracticable. Further, the qualifications and temperament of employes, and office relations, have to be considered. The decision as to the extent to which correction should be carried must be made in the light of all the circumstances.

There can be little question about the desirability of separating the bookkeeping function from that of the cashier and of establishing a fixed fund for small disbursements. These precautions reduce the possibility of falsifying the records to the cash book, lessen the chances of embezzlement through interception of receipts and improper withdrawal of funds on deposit, and tend to limit the size of any shortage which might be perpetrated. Embezzlement prevention usually is less expensive than having to prove the loss in case embezzlement occurs.

With the bookkeeping work eliminated from the control of the cashier, his duties are restricted to receiving and disbursing cash and keeping the immediate record thereof. There is no opportunity for him to manipulate the complementary and the control records and therefore little likelihood that he would attempt a shortage which would involve customers or creditors.

Interception of receipts from customers presents a situation wherein it is made to appear that certain payments which have been remitted by customers have not been received. If the cashier does not keep the customers' ledger, does not mail statements to customers, and does not have access to the general ledger which controls the customers' ledger, it would be difficult for him to intercept any considerable amount of receipts without being detected.

In like manner, the opportunity for improper withdrawal of funds on deposit, purporting to represent payments to creditors, is affected by the freedom which the cashier has of manipulating the purchase records and accounts with creditors. The representation made through a situation of this kind is that certain amounts due creditors have been paid when, in fact, the creditors have not received the payments. If the cashier does not enter the purchase invoices, or does not make up and enter the vouchers payable, and does not receive and check up statements received from creditors, he would not be able to conceal a shortage arising through improper withdrawal of funds in this manner for any length of time.

Thus, divorcing the bookkeeping related to customers' and to creditors' accounts from the cashier accomplishes two very desirable purposes. The first minimizes the opportunity of covering intercepted receipts from customers. The second removes the temptation of improper withdrawal, with the hope of concealment through falsification of creditors' accounts.

The bookkeeping duties having been removed, the work of the cashier consists of the following: receive all incoming cash direct; enter receipts in cash book; pass on question of cash discounts and similar allowances; deposit checks and currency in bank; prepare disbursement checks; enter disbursement checks in cash book; foot and balance cash book; reconcile bank account.

Several items in this list of duties need modification even after assuming that a cash fund of fixed amount for small disbursements has been established. The latter, incidentally, will no longer form a part of the general cash but will be controlled through a separate account in the general ledger. The fund will be relieved by a general voucher payable to be entered in the vouchers payable register like a voucher covering outside purchases. The fund will be replenished by a check drawn on the general bank account to the order of the cashier, in an amount equal to the amount of the relief voucher, so that the imprest fund always will stand at a fixed amount.

Further modification of the cashier's duties as outlined above has to do with incoming receipts, passing on discounts and other allowances, depositing receipts, and reconciling the bank account. Again it should be borne in mind that the extent to which some of these modifications may be carried will depend upon the size and details of organization.

Incoming receipts, under an ideal arrangement, should pass through the hands of some one and be recorded in the aggregate before being passed to the cashier for entry. In some establishments cash sales are recorded and totaled by means of cash registers. Receipts coming in through the mail are usually in the form of checks and may be totaled by a mail clerk or some person who opens the mail and takes out enclosures. With information as to the total of receipts passed on to the bookkeeper independently of the cashier, an opportunity is afforded to build up the general ledger control of receipts. Thus the possibility of interception without detection practically is precluded.

The question of cash discount and similar allowances presents a somewhat troublesome problem, unless in these matters care is taken to remove from the cashier authority of decision as to amounts. The subject also is bound up with other considerations, such as the control of receipts, just previously discussed, with the deposit of all receipts, and with the establishment of a fixed cash fund for small disbursements.

If receipts were properly controlled by independent report to the general bookkeeper from the person receiving incoming cash, it would profit the cashier nothing but trouble, if he were to attempt any manipulation of cash discounts with a view to abstracting currency.

If the receipts are not controlled, a cashier with a mixed cash account, that is, part in hand and part in bank, might falsify the discount column in his cash book, thereby reducing the amount of net cash with which he charged himself, and escape detection up to the time of audit. In the experience of one firm of certified public accountants, three cases of this character were encountered within a period of six weeks.

The possibilities of this form of irregularity are reduced somewhat by the introduction of a fixed fund and the deposit in bank of all receipts intact, but not altogether eliminated as long as the cashier has any currency in his receipts, unless the receipts are controlled by independent report to the general bookkeeper. The latter purpose sometimes is accomplished by having someone under the jurisdiction of the general bookkeeper maintain a detail cash book, entering therein the net cash, discounts, allowances for freight, etc. The cashier then takes over the receipts, and enters the cash, discounts, and allowances for the day in total. The general bookkeeper takes off the totals for his control and either himself, or through some one under him, posts the details to the customers' ledger.

One further feature of limitation as to the duties of the cashier needs to be considered. The bank account should be reconciled by some person other than the cashier. In this way the cashier would be prevented from falsifying the reconcilement and misrepresenting the balance on deposit. This form of coverage is frequently attempted but will not withstand the test of proper audit. However, regular, monthly, independent reconcilement removes the possibility of coverage through manipulation of the bank balance and the opportunity of altering, destroying, or misfiling checks until after they have served their purpose as the basis of reconcilement.

The work of the cashier, with the application of the foregoing precaution, will now have become circumscribed so as to limit his duties and responsibilities to the following: enter controlled receipts in the cash book; deposit all receipts in bank;

prepare and enter disbursement checks; foot and balance cash book. If the further precautionary step of having someone other than the cashier make the postings from the cash book about every safeguard possible will have been imposed. The opportunity for stealing cash will have been minimized and very little chance of successful concealment will remain. This situation, of course, is ideal but not without the bounds of reason.

Summing up, the following list of admonitions may be offered as means of preventing loss from theft of cash, of limiting the amount of a shortage, and of facilitating the determination of the exact amount in case a shortage occurs:

Don't let an employe serve in the dual capacity of cashier and bookkeeper.

Don't allow the cashier to have a mixed cash account.

Don't permit the cashier to make currency disbursements out of currency receipts.

Don't let the cashier receive collections until they have been recorded by some other person.

Don't permit the cashier to fix the amounts of cash discounts and similar allowances.

Don't allow the cashier to make small disbursements out of other than a fixed fund controlled by the general ledger.

Don't let the cashier draw checks to the order of cash.

Don't let the cashier destroy checks that have been spoiled in preparation or cancelled for any reason.

Don't, in case of two or more bank accounts, allow the cashier a choice among two persons authorized to sign checks if both are available at the same time.

Don't permit the cashier to reconcile the bank account.

There are various other refinements of admonition which might be introduced, but with these precautions any cash irregularity may be detected easily and an incipient shortage prevented from developing into one of consequential amount.

Accountancy Legislation

NEW YORK State may or may not have a satisfactory law governing the practice of accountancy as this is being read. For two successive years legislation has been attempted with a view to bringing some order out of the chaos which has existed. New York State has had a law governing the issuance of C. P. A. certificates since 1896. It was the first State in the country to make such legal provision. The designation of C. P. A. has grown in significance, even though the law of the State has not prohibited the practice of accountancy by those not so designated. State control of those practicing within the confines of New York admittedly has been impossible, because there has been no restriction of practice based on a legal requirement as to license.

Now it is proposed, by a bill before the Legislature, to let down the bars, so to speak, by granting the C. P. A. certificate to those who have had a certain amount of experience, but without having to meet the educational requirements heretofore imposed by the Board of Regents. This, of course, will admit a large number of individuals whose qualifications for practice are questionable, but it will have the effect of bringing under the control of the State all persons recognized as eligible to practice, to the exclusion of all others except those who in the future are able to qualify for certification by the State Board of Accountancy.

Certified public accountants of standing cannot but view with mixed emotions this proposed action of expediency. There are hundreds of men who have studied diligently and under tremendous handicaps to fulfill the preliminary requirements and to fit themselves to pass the examinations set by the Board. These same individuals have acquired, through years